

STATEMENT OF BARRY FELRICE
ASSOCIATE ADMINISTRATOR FOR RULEMAKING
NATIONAL HIGHWAY TRAFFIC SAFETY ADMINISTRATION
BEFORE THE
CONSUMER SUBCOMMITTEE
OF THE
SENATE COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION
REGARDING
CORPORATE AVERAGE FUEL ECONOMY STANDARDS

May 2, 1989

Mr. Chairman and Members of the Committee:

I am pleased to appear before you today to discuss the automotive fuel economy program. Before I discuss the current rulemaking and related issues, I would like to give you a brief overview of the fuel economy program.

As a result of the 1973-1974 OPEC oil embargo, which led to gasoline shortages and significant increases in the cost of gasoline, Congress enacted a variety of measures to conserve energy supplies. One of these measures, Title V of the Motor Vehicle Information and Cost Savings Act, established fuel economy requirements for passenger cars and light trucks. The goal of the program was to arrive by stages at a CAFE level for passenger cars of 27.5 mpg by model year 1985. In setting the goal of 27.5 mpg, Congress hoped to decrease the Nation's dependence on foreign oil and, at the time, encourage full employment in the domestic auto industry.

For passenger cars, the statute directed each auto manufacturer to achieve progressively higher corporate average fuel economy (CAFE) levels, beginning at 18 mpg in model year 1978 and increasing to 27.5 mpg

in model year 1985 and thereafter. The Secretary of Transportation was directed to prescribe, by rule, the intermediate standards in model years 1981 through 1984, and was given the discretionary authority to raise or lower the 27.5 mpg standard for model year 1985 and subsequent model years. The statute also required the Secretary to set separate fuel economy standards for light trucks each year. The fuel economy standard-setting responsibilities have been delegated to the National Highway Traffic Safety Administration (NHTSA).

In amending fuel economy standards for passenger cars and setting standards for light trucks, the statute requires us to determine the "maximum feasible average fuel economy level" for the model year to which the standard applies. In determining the maximum feasible average fuel economy level, we are required by the statute to consider four factors: technological feasibility, economic practicability, the effect of other Federal motor vehicle standards on fuel economy, and the need of the Nation to conserve energy. Although civil penalties are provided for manufacturers that fail to meet applicable standards, the statute also permits manufacturers to offset these penalties with accumulated past credits or estimated future credits for exceeding the standards.

In 1977, NHTSA established the intermediate fuel economy levels for model years 1981-1984. Through model year 1982, the manufacturers increased their fuel economy rapidly and, due to strong market demand for fuel-efficient cars, they exceeded the fuel economy standards during that period. By model year 1983, however, there were indications that some manufacturers would be unable to meet the 27.5 mpg statutory standard for model year 1985, as declining fuel prices lessened consumers' interest in the most fuel efficient cars. Even so, the manufacturers continued to make improvements in fuel efficiency by technological improvements such

as more efficient transmissions, better aerodynamics, engine efficiency improvements, fuel injection, and electronic controls.

The declining consumer demand for the most fuel efficient models made compliance with the standards more difficult for those domestic manufacturers offering a full range of passenger cars. For model year 1986, General Motors and Ford petitioned for a reduction of the standard, stating that factors beyond their control, including lower gasoline prices and the resultant greater demand for larger cars and higher performance had reduced their fuel economy capability. In response to these petitions and to petitions for subsequent model years, the Department set the CAFE standards for passenger cars at 26.0 mpg for model years 1986, 1987, and 1988, and at 26.5 mpg for model year 1989. Notwithstanding the lowered standards, the fuel economy of the fleet continued to improve through model year 1988, to the point where the fuel economy of the new car fleet in the past three years has exceeded the 27.5 mpg statutory level.

A petition was also filed for model year 1990. With respect to the resultant rulemaking, Secretary Skinner is presently considering whether to reduce the passenger car CAFE standard of 27.5 mpg to a level between 26.5 and 27.5 mpg for the 1990 model year. Until this decision is made, statements on behalf of the Department will necessarily avoid positions that could be construed as indicating the Secretary's intent.

Having said this, I want to assure you that the Secretary is mindful of the issues of energy conservation and the environment. The fuel efficiency of motor vehicles is one of a wide range of significant issues relating to the Nation's energy policy and the national economy that the Administration is reviewing most carefully.

The future role of CAFE standards in the nation's effort to conserve energy is undergoing review as the Administration examines the effects of energy choices on the national economy and the world environment. The questions of how to make further gains in fuel efficiency and whether such gains, on balance, constitute good public policy, will require a consideration of a multitude of factors -- economic practicability; technological feasibility; possible tradeoffs regarding safety, comfort, passenger-carrying capacity, and performance; environmental effects; impacts on domestic employment; and effects on the U.S. economy -- as well as energy conservation.

When the Administration's review is completed, we will be better prepared to discuss the issues raised by the various legislative proposals to increase the CAFE standard for future model years. In this regard, we would note that the Department currently has sufficient regulatory authority to amend the passenger car and light truck standards, and the setting of any standard should be based on an assessment of the feasibility of achieving the standard, considering the factors enumerated earlier.

In response to your specific questions, we will defer to the Department of Energy and the Environmental Protection Agency on the questions relating to the trends in oil imports and the effects of gasoline use on carbon dioxide emissions.

You have asked about the levels of passenger car fleet fuel economy expected by 2000 if there is no change in federal fuel economy standards and about the range of levels that are achievable by that year. At this point, we have not conducted a long-range estimate of this type. However, there are studies by the Office of Technology Assessment, the Department of Energy, and others which contain preliminary estimates.

The OTA testified in the House on April 10 that a fleet fuel economy level of 32 mpg for passenger cars and 24 mpg for light trucks would be "reasonable mid-range" estimates for the year 2000, given "current trends and no radical changes in either government policy or fuel prices." We believe that further analysis is needed on this issue and that much more analysis will be needed before we can reasonably say what levels are achievable through additional economic and regulatory measures.

Your final questions concern the effects of the CAFE standards on the competitiveness of the domestic auto industry and the prospects for improving the structure of the CAFE program. The current CAFE program is unquestionably more difficult for the domestic manufacturers than for foreign manufacturers that produce only compact and subcompact vehicles. Whether the uneven effects of the law can be corrected and what effects any corrections would have on fuel economy are matters under review within the Administration at this time. I hope that this review can be completed quickly and that we will soon be able to recommend any legislative changes that seem advisable.

Mr. Chairman, this concludes my remarks. We will be glad to try to answer any questions you may have.